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NORTHERN BRANCH
OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

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NORTHERN BRANCH WEEKLY

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Office of Reports and Estimates
Northern Branch

BRITISH DIVISION

UNITED KINGDOM

1. British attitudes at Strasbourg

After four weeks of the first session of the Consultative Assembly of the Council of Europe at Strasbourg, the following facts emerge from the deliberations: a) the British representatives are prominent in the Assembly; b) the British Socialists show continuing but diminishing caution in their approach toward European unity; and c) the Conservative-Socialist rift among the British representatives shows signs of narrowing. The caliber of the leading British representatives and the importance which the continental nations attach to British cooperation with Europe have made the UK parliamentarians among the most talked about at Strasbourg.

There have been many indications that the Labor Government is trying to live down its reputation for wishing to "drag its feet" in the Council of Europe, although the British Socialists have, on the whole, maintained a cautious, functional approach toward the problem of European cooperation, and have on occasion been jealous of national prerogatives. For example, they turned down a proposal by the French Socialists for the formation of a Socialist bloc. The British Conservatives, while in essential agreement with the functional approach of the Socialists, are nevertheless endeavoring to convey the impression that they would approach the problem of European cooperation in a less rigid and suspicious manner. Some of the Conservative enthusiasm for European solidarity would undoubtedly vanish if the champions of Empire were in power at home. Nevertheless, Churchill's sincere belief that European cooperation is necessary for Europe's survival, his personal pleasure at being the star attraction, and the cosmopolitanism that comes more easily to many Conservatives would continue to guarantee Conservative promotion of the Strasbourg experiment.

Nevertheless, division along party lines is not rigid. British Socialists and Conservatives have repeatedly voted to-

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gether and Laborite Ronald Mackay is the most outspoken British advocate of a speedy European federation. Moreover, the initial Conservative-Socialist hostility among the British representatives, which extended from policy matters to personal quarrels, seems to be subsiding as the issues facing the delegates become more concrete, and traditional British parliamentary seriousness replaces personal animosity. However, complete crystallization of British attitudes toward the Council of Europe will not take place until the Council of Ministers will have had an opportunity to act on the recommendations of the Assembly.

2. The Trend of Exports

While the overall trend of British exports declined again in July to 143% of 1938 volume, the value of the shipments to the US and Canada showed a small increase over the June figures. Although it is not possible to say on the basis of this one month's figures, which may reflect a seasonal factor, that the downward trend in exports to dollar areas has been reversed, any small advance is, for the British, a welcome reversal over past months.

3. British Foreign Office disturbed over Iraq

Two problems about Iraq are of current concern to the UK Foreign Office: resistance to the reopening of the Kirkuk-Haifa oil pipeline and a financial situation grave enough to imperil the stability of the country. Not only is there a large governmental deficit, but the state railroads are in danger of going bankrupt, and there are insufficient funds to meet already authorized expenditures for completing new railroad projects and other important schemes. UK officials believe that the Iraqi financial position will remain unsound until fundamental reforms such as a substantial increase in taxation are inaugurated. Although reopening the pipeline would increase the oil royalties coming in to the Iraqi Treasury, it has been estimated that even with increased production oil royalties could provide only a small part of the needed revenue. In fact, with the recent opening of a 16-inch line to Tripoli in Lebanon, the Iraqi are now receiving more royalties than when oil was being pumped only through the two 12-inch lines to Tripoli and Haifa.

To offer some temporary alleviation the UK Foreign Office encouraged a recent visit of Prime Minister Nuri Said

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to London where the question of loans was discussed with British bankers. On his return to Baghdad Nuri announced that Iraq had received a loan of 3 million dinars (1 dinar equals 1 pound sterling) from London banks, one of 4 $\frac{1}{2}$ million dinars from the International Bank, and an interest-free advance of 33 million dinars by the Iraq Petroleum Company. Nuri's statement has been challenged as inaccurate on several counts, particularly on the IPC advance which other sources describe as still uncertain and amounting to only 3 million dinars. The most probable explanation for Nuri's obviously premature announcement is that he felt it necessary to prevent his Government from falling or at least wanted to strengthen his own hand politically for a possible shuffle of cabinet posts.

The reopening of the Haifa refinery and the pipeline to Kirkuk is a British objective even apart from the situation in Iraq, for it would be of direct economic advantage to the UK and would probably help to reduce tension in the Middle East generally. For a while the British felt almost sure of Iraqi cooperation in their carefully laid plans to this end, despite the depth of Iraqi public sentiment against reopening the line. However, since his return to Baghdad, Nuri has stated that he will agree to reopen the pipeline only after the refinery has commenced operations and then only on the condition that no Iraq crude is used in the refinery.

4. UK taking gradual approach to obtain Thai aid against Communism

The gradual type of approach currently being taken by the UK to contain Communism in South East Asia is suggested by two recent developments in UK-Thai relations. Previous plans for a full dress British Military Mission to Thailand have now been virtually abandoned on the strong recommendations of the UK and US ambassadors there and the advice of the Commander-in-Chief of the British Far Eastern Land Forces, who recently held an exploratory interview with Prime Minister Phibul in Bangkok. Instead, the Thai armed forces are by these new proposals to be aided informally through joint committees (including both UK and US military attaches) which will examine Thai requirements in the light of the military equipment available from US or UK sources.

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Meanwhile, British and Thai military authorities are moving into closer collaboration on an ad hoc basis in the problem presented by the Communist guerillas in northern British Malaya. In spite of several earlier efforts to solve this problem, Thailand has to some extent continued to be used as a safe haven by Malayan guerilla bands; the new arrangement attempts to tighten border controls by attaching a small group of British officers to the Thai Army command for the southern provinces and a group of Thai officers to Malayan military units. Since Malayan military units already have the right under special circumstances to pursue retreating guerillas for as much as forty miles into Thai territory, it may be presumed that the educational potentialities of this new arrangement (including its usefulness as a precedent) bulk larger in British eyes than its immediate police functions.

The gradualism of this British attempt to secure Thai cooperation against Communism in Asia is to be attributed not to a belief that the Communist danger is remote but to a judgment that the immediate political situation in South East Asia does not yet admit the employment of bold and rapid strokes to deal with it.* The British have, indeed, already underlined the importance they attach to the South East Asia situation by indicating that it is one of the topics they wish to discuss with the US in Washington this week.

5. Japanese competition in the Far East

The development of Japanese trade at the expense of Britain in far eastern markets, such as the award to Japan of contracts to build railway locomotives for Thailand, is being viewed with alarm in the UK.

Thailand's railway equipment program, among other things, called for 65 new locomotives of various types. The order was originally to have gone to the UK but, according to the British press, was lost to Japan which, under strong pressure from the US occupation authorities, quoted a price 25% under the British tender with the added inducement that payment could be made in rice.

*See NE Weekly No. 76, 3 August 1949

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The British are particularly sensitive to interference in their trade with Thailand since the Thais have built up a large favorable balance of trade with the sterling area through the export of rice. This imbalance is an important source of the cheap sterling now depressing the value of the pound in the free markets of the world, and the UK is making every effort to reduce it by fostering British exports to Thailand.

The British press is also quick to point out that the Japanese locomotive contract is a straight bilateral barter deal of the type so persistently decried in the US as being in restraint of international trade.

6. US-UK policy differences on China continue

The divergence in the US and UK approaches to the problem of protecting their respective interests in Communist China is illustrated again* in the negotiations for evacuating their nationals from Shanghai. In making arrangements to pass a steamship through the Nationalist blockade of the Yangtse, the US is putting primary emphasis on straight evacuation while the UK seems more interested in providing the communications and supplies that would enable its citizens to continue doing business in Shanghai. Similarly, on the British-favored proposal for a Shanghai-Hong Kong shuttle air service, such support as there has been for the idea in US official circles has been on the ground that it would assist in the evacuation of US citizens. At the same time, the British Foreign Office has indicated its determination not to let differences on this particular question prejudice US-UK agreement on "broader issues" and has willingly fallen in with US proposals that British consulates take over as much as possible the protection of American interests in parts of China where US consulates are being closed. The assignment of US military liaison officers to Hong Kong is also being arranged. But underlying differences in the two nations' Chinese interests persist, and Britain's China policy can not be expected to correspond at every point with that of the US.

*See NB Weekly Nos.: 76 and 78, 8 and 22 August.

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SCANDINAVIAN DIVISION

SWEDEN

1. Sweden desires to exchange military observers

A formal Swedish invitation for US officers of the European Command to visit Sweden has been closely followed by a request that the US invite Swedish Army and Air observers to attend the September maneuvers in Germany.

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[REDACTED] considers these moves to be attempts by the Swedes to discredit the North Atlantic Pact in the eyes of Norway and Denmark by showing them that the benefits of NAP can be enjoyed without actual membership. That the Swedes will seize on such opportunities for propaganda purposes has been evidenced by their actions following participation of Swedish officers as observers in the spring maneuvers in Germany and by reports of US arms aid to Sweden. There is no substantiated evidence, however, to indicate that either the Norwegian or the Danish attitude toward NAP has been seriously affected.

Other possible reasons for the Swedish moves can not be entirely discounted. Returning the courtesy of the US invitation to attend the spring maneuvers could alone account for the invitation for US officers to visit Sweden, but the timing of the Swedish request for observers to attend the September maneuvers in Germany indicates an effort also to "cash in" on such an invitation by getting another opportunity to learn, at first hand, more about US tactics and equipment. Some of the high ranking Swedish military men with their oft-reported, unrealistic overestimate of Sweden's defense capabilities, may also believe that a display of her defenses to American observers will impress the US with Sweden's military strength and worth as a strong though neutral nation and thus improve Sweden's chances of obtaining special types of arms aid.

ICELAND

2. Iceland imports German farm laborers

Despite reluctance of Icelanders to accept foreigners into their country, difficulty in securing help on farms

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caused farmers to urge the government to send a recruiting mission to the British Zone of Germany. 309 Germans, who have agreed to stay for two years and to remain in agricultural work, have been recruited, of whom 184 have now arrived in Iceland.

Agricultural help became ample during the time which elapsed between the initiation of the project and arrival of the laborers. Maximum annual wages for the Germans will be less than that paid to local labor, however, so their employment seems assured.

With the necessity for reducing the standard of living in Iceland because its economy cannot satisfy the current needs of its population it is doubtful that the addition of these laborers can have much beneficial effect. It has already afforded the Communists added propaganda possibilities, and they now accuse the Government of attempting to replace Icelanders with cheap foreign labor.

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